Strategy Research Project

Future of the Military Retirement System

by

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USAWC STRATEGY RESEARCH PROJECT

FUTURE OF THE MILITARY RETIREMENT SYSTEM

by

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ABSTRACT

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There are numerous current and future fiscal challenges facing the United States of America and the Department of Defense. Many hard decisions will be made in the near future. Critical for making the best decision(s) is being informed of all possible courses of action and their impacts at all levels. One of the highest costs in the Department of Defense is manpower costs and military pensions. The intent of this research project is to assess the fiscal and readiness impact of the current military retirement system and evaluate current proposals to adjust it to meet current and future budgetary and retention challenges. I will approach this evaluation from both a monetary standpoint and social and psychological perspectives. I will use a "life-course" approach on the human or social aspect of the military retirement system and the impact current and future changes could have to the recruitment, retention, and readiness of an all-volunteer force.

FUTURE OF THE MILITARY RETIREMENT SYSTEM

Military service is a profession, highly regarded by the public, steeped in tradition, and woven into the very fabric of the culture of our Nation. Among all professions, the Profession of Arms is unique because of the lethality of our weapons and our operations.[1] As an example within the American military establishment, the United States Army is an American Profession of Arms, a vocation comprised of experts certified in the ethical application of land combat power, serving under civilian authority, entrusted to defend the Constitution and the rights and interests of the American people.[2]

Our Nation's military has transformed over time into the current all volunteer professional force we have today – and many would argue that it is currently the most capable military force arrayed by the human race to date. Just as our force has evolved over time, so has our military compensation system, and more specifically, our military retirement system. Our nation's treasure, the citizens that selflessly volunteer to serve in the armed forces, sacrifice much in the name of their fellow countrymen. Our public strongly supports our troops with the <u>trust</u> that the government will take care of their basic needs, and the citizens that serve in the military <u>trust</u> that the "system" they enter (e.g. the United States Army) will take care of their basic needs and compensate them in respect to their sacrifices made; not to get enriched, but their just dues. A recent Gallop Poll (June 2011) reflects that the military has been the top ranked institution each year since 1998 and from 1989 to 1996.[3] This "trust" has been established over time and is the lynchpin in assuring a healthy all-volunteer force that can attract the best and brightest of our nation's citizens for service. A large contributing factor to the basis

of the trust in our service is the military compensation system that has developed over time, and since World War II has served our nation effectively. A large part of that trust in the military compensation system is a retirement system that ensures eligible personnel are compensated in the service of their nation and that their sacrifices are honored. Any proposed changes to the military retirement system must be approached with great care and deliberation in order to maintain our citizens' trust that the government will take care of their needs if they volunteer for military service, as well as honor their sacrifices inherent of a military career. If changes are made detrimental to the system for the sake of monetary issues (e.g. a budget cut drill), the damage to trust may be deep and take a long time to repair, if ever – resulting in reduced confidence that the Nation has the best interest of our citizens that serve, and could affect combat readiness as the military faces challenging times attracting the best and the brightest to serve their nation, especially in times of great national need for selfless service.

There have been numerous official and unofficial studies conducted over the past 100 years on the retirement system for the military services of the United States government. One of the earlier United States Army War College student research papers to address this topic was completed in 1984.[4] That study essentially addressed the current state of the military retirement system as of late 1983 and compared that system to the changes evolving with the federal civilian retirement system. The study concluded that if there were to be a change to the retirement program it should be phased in over time and be at least comparable to any federal civilian retirement system in effect. Another United States Army War College student research paper addressed this topic in 1999.[5] This study addressed the issues with the military retirement system

at that time and possible augmentation of the retirement system with a 401k type system. This has since come to pass with the authorization of uniformed service members now having the ability since 2001 to invest in the Federal Thrift Savings Program (TSP). Additionally, many of these studies were focused on three core areas; the first was the cost of maintaining the systems, the second was the equity within the construct of the systems, and finally the ability to use the retirement system as a force management tool to shape the force. Many of these past studies, commissions, and committees developed “sweeping” reform proposals that were not enacted upon due to the political nature of their affect and the fortunate debate on their impact(s) on the viability of our forces. However, these same three focus areas are being applied to studies of the retirement system today. As recently as December 19, 2011, there was an article in the media stating that the Chairman of the Joint Chiefs of Staff, General Martin Dempsey, announced a study that will focus on the current retirement system in order to combat “skyrocketing retirement costs.”[6] The article further stated “the military must bring those costs under control.”[7] Within the current budget and economic constraints of today and those projected into the near future, a study must be done to address the costs of the current retirement system, however, a holistic, or life-course approach must be followed in order to assure the public and our citizens that serve that our nation will properly compensate them for the sacrifice of their service.

There is no doubt that the evolution of our military retirement system has significantly improved over time and ensured the health of our force and the continued viability of an all-volunteer, professional, and effective military force. A time tested phrase states “the only constant in life is change”. However, change for the sake of

change can have damaging effects especially when you are dealing with a need (military monetary compensation) versus a want. The current retirement system must be studied for future effectiveness, supportability, and equity, if it is to remain a foundation to help attract and maintain a healthy, all-volunteer force. In order to not break the trust of our service members and their families and the future trust of our public in their support for military service, an approach for reviewing the current system and future retirement system change proposals must include elements such as cost, flexibility, force management applicability, and equity; however, the studies must include the career impact on the life course of citizens that sacrifice to serve. This latter element is the most important in ensuring the continuing trust that our nation will take care of its citizen soldiers.

The life course approach to analyzing why people make their decisions that impact their major life choices is much more inclusive than mere analytical synthesis. It gets to the root cause(s) of why a choice is made in order to better understand and predict future behavioral choices. Life course theory refers to a multidisciplinary paradigm for the study of people's lives, structural contexts, and social change.[8] This approach encompasses ideas and observations from an array of disciplines, notably history, sociology, demography, developmental psychology, biology, and economics.[9] In particular, it directs attention to the powerful connection between individual lives and the historical and socioeconomic context in which these lives unfold.[10] A life course essentially lays out the sequence and experience of socially defined events and roles an individual employs during their life.[11] Thus the concept of life course implies age-differentiated social phenomena distinct from uniform life-cycle stages and the life

span.[12] Life span refers to duration of life and characteristics that are closely related to age but that vary little across time and place.[13]

In contrast, the life course perspective elaborates the importance of time, context, process, and meaning on human development and family life.[14] The family is perceived as a micro social group within a macro social context—a "collection of individuals with shared history who interact within ever-changing social contexts across ever increasing time and space."[15] Aging and developmental change, therefore, are continuous processes that are experienced throughout life.[16] As such, the life course reflects the intersection of social and historical factors with personal biography and development within which the study of family life and social change can ensue.[17] Therefore the life course approach is a good analytical tool for analyzing the impact on any changes to the military retirement system, which can directly impact our Nation's military readiness.

Citizens that choose to serve in the military do so for varied reasons, to include service to their country, opportunities for future education benefits, adventure, or a path to a better life. Many serve for varying periods of time, with length of service from several years for many, to over four decades for a select few. Regardless of length of time served, all are bound by dedicated service to their nation, and all trust that their nation will take care of their needs through many facets such as medical and monetary compensation. Many of our service members that make a career in the military spend their formative, and most influential and employment potential years in the military (e.g. ages 18-45). Transitioning to the private sector and competing for a job after spending over ten years in the military is daunting, especially when the economy may be

struggling to employ many with years of business experience already under their belt. This has been highlighted by recent trends showing a staggering unemployment rate for military veterans, which exceeds the national average…and the national average alone has been in dire straights for the past few years. According to the Bureau of Labor Statistics (BLS), in 2010, young male veterans, ages 18 to 24, who served during the Gulf War II era (Operations Enduring and Iraqi Freedom), including those who served at any time since September 2001, had an unemployment rate of 21.9 percent (significantly higher than the national average- at nearly double the rate).[18] The veterans' unemployment rate is on a steady incline and has even risen noticeably since 2010.[19] In fact, according to the BLS, the rate of unemployment for military veterans increased from 11.5% in June 2010 to 13.3% in June 2011.[20] Without a strong compensation package to buoy the retiring service member attempting to make a second career later in life, only despair, resentment, and breakage of trust can follow.

The current military retirement system is categorized as a Defined Benefit (DB) plan. A DB retirement program is a type of pension plan in which an employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employee's earnings history, and tenure of service. It is 'defined' in the sense that the formula for computing the employer's contribution is known in advance. Currently the system vests, or anchors, at the twenty year service mark for the active component military. There are three retirement formulas for the active regular force and two reserve retirement formulas in use today. Any affect on the active regular component retirement formulas will have a direct corollary impact on the reserve formulas, so the focus of this paper will concentrate on the active regular component formulas.

However, in both categories of retirement systems (regular and reserve) the formula that applies to each service member depends on the member's date of initial entry to military service (DIEMs date).

For the current regular retirement systems the three formulas applied are known as final pay, high-three, and REDUX plans. Final pay is for those persons who entered service before September 8, 1980, and the retirement pay is calculated as 2.5 percent per year of service times the final rate of monthly basic pay. The High-three retirement plan is for persons that entered service from September 8, 1980, through July 31, 1986, and is computed similarly to Final Pay but with an averaging factor that on average reduces the value of the retirement pay to the service member. High-three is calculated as 2.5 percent per year of service times the average monthly basic pay rate for the member's highest 36 months (three years – hence the term High-three) of basic pay. For members that entered the service after 31 July, 1986 to present, there are two choices for retirement plans, either the High-three plan or the REDUX retirement plan. The REDUX retirement plan is calculated as 2.5 percent per year of service, less one percentage point for each year of service completed less than 30 years, to a maximum of 75 percent, times average monthly basic pay for the highest 36 months of pay; and the receipt of a $30,000 Career Status Bonus paid at the 15th year of service. Additionally, under REDUX, the retirement multiplier (e.g. 2.5 percent times YOS) is restored to its full amount upon reaching age 62. There are Cost of Living (COL) adjustments for all three plans to keep up with inflation over time, however, for REDUX, the COL adjustments are equal to the Consumer Price Index (CPI) minus 1 percent until age 62, when there is a one-time full CPI restoration of purchasing power, followed by

CPI minus 1 percent increases thereafter. All three retirement plans vest the service member at 20 years of service, and the monthly annuity is payable immediately upon retirement regardless of age. An example of each of the three plans follows to illustrate the monetary difference of each plan, if the service member were to retire today, depending on their DIEMS date[21] (all three examples assume a two percent inflation rate and a fifteen percent tax rate):[22]

Final Pay (member retires as a Lieutenant Colonel (pay grade O-5), with 20 years of credible active federal military service, a DIEMS date of September 1st, 1980, Basic Active Service Entry Date (BASD) of May 1st, 1982, had a break in service in 1992, recalled to active duty in 2001, and served 20 years total in uniform, in the regular Army, retires in December 2011) (Figure 1):

		Before Taxes			After Taxes	
Years Out	**Year**	**Monthly Pay**	**Annual Pay**	**Cumulative**	**Annual Pay**	**Cumulative**
1	**2011**	**$3,956**	**$47,472**	**$47,472**	**$40,352**	**$40,352**
10	**2020**	**$4,728**	**$56,734**	**$519,809**	**$48,224**	**$441,838**
20	**2030**	**$5,763**	**$69,158**	**$1,153,453**	**$58,785**	**$980,435**
30	**2040**	**$7,025**	**$84,304**	**$1,925,862**	**$71,658**	**$1,636,983**
40	**2050**	**$8,564**	**$102,766**	**$2,867,424**	**$87,351**	**$2,437,311**

Figure 1: (Final Pay Calculation)

		Before Taxes			After Taxes	
Years Out	**Year**	**Monthly Pay**	**Annual Pay**	**Cumulative**	**Annual Pay**	**Cumulative**
1	**2011**	**$3,706**	**$44,469**	**$44,469**	**$37,798**	**$37,798**
10	**2020**	**$4,429**	**$53,144**	**$486,921**	**$45,173**	**$413,883**
20	**2030**	**$5,399**	**$64,783**	**$1,080,475**	**$55,065**	**$918,404**
30	**2040**	**$6,581**	**$78,970**	**$1,804,015**	**$67,124**	**$1,533,413**
40	**2050**	**$8,022**	**$96,264**	**$2,686,005**	**$81,824**	**$2,283,104**

Figure 2: (High-Three Calculation)

High-three (member retires as a Lieutenant Colonel (pay grade O-5), with 20 years of credible active federal military service, a DIEMS date of July 1st, 1986, Basic Active Service Entry Date (BASD) of December 1st, 1991, and served 20 years total in uniform, in the regular Army, retires in December 2011) (Figure 2).

REDUX (member retires as a Lieutenant Colonel (pay grade O-5), with 20 years of credible active federal military service, a DIEMS date of September 1st, 1986, Basic Active Service Entry Date (BASD) of December 1st, 1991, and served 20 years total in uniform, in the regular Army, retires in December 2011) (Figure 3):

	Age	Annual Retirement Pay	Cumulative Retirement Pay	Bonus Accumulation	Total Retirement Pay + Bonus Accumulation
Current		**$0**	**$0**	**$30,000**	**$30,000**
Retirement Year					
1	42	$31,130	$31,130	$31,274	$62,404
10	51	$34,037	$325,630	$45,486	$371,116
20	61	$37,607	$685,359	$68,966	$754,325
30	71	$63,250	$1,290,378	$104,568	$1,394,946
40	81	$69,859	$1,958,698	$158,548	$2,117,246

Figure 3: (REDUX Calculation)

Over time the above examples would create a larger gap between the cumulative annuity amounts due to the payment differences, and for REDUX, the lag in COL increases the difference even more over time versus the Final Pay or High-three plans. The REDUX does pay a $30,000 Career Status Bonus at the 15 year of service mark, which is taxable. The residual amount would need to be aggressively invested to try to close the gap between REDUX and the other two retirement pay plans, with a return rate not seen in recent economic history, and from my personal experience, most Soldiers use that money to pay off past debt, only to incur more new debt. Since

service members who entered active duty after July 1986 have a choice of retirement systems an example is provided to contrast the monetary difference over time[23] (Figure 4):

		CSB/REDUX		High-3	
	Age	Annual Retired Pay	Bonus Accumulation	Annual Retired Pay	Saving High-3 and REDUX Difference
15th YOS	33	$0	$25,500	$0	$0
Retirement Year					
1	42	$35,057	$32,733	$43,834	$8,776
10	51	$38,332	$47,608	$52,385	$135,100
20	61	$42,350	$72,184	$63,858	$420,308
30	71	$71,227	$109,446	$77,842	$672,946
40	81	$78,673	$165,944	$94,889	$1,158,158

Figure 4: (High-Three and REDUX Comparison)

Our current military retirement system has been around for over a century, with many changes over the course of its history. The first legislation seen that gave authority for the voluntary retirement of military personnel came in 1885, when Army and Marine enlisted personnel could retire after 30 years of service.[24] Since that time there have been numerous other legislative updates, regulatory changes, and evolutions to the retirement system that we have today. However, there have been several enduring themes throughout time of the military retirement system. First, there is extensive legislative history supporting a military retirement system or entitlement process, with vesting rules and payout formulas which have been used systematically over time; and second, the retirement system has helped shaped the force, ensuring that only viable, able personnel continue to serve (e.g. a voluntary way out vs. serving until you drop).

The military retirement system has also undergone numerous proposals to adjust it. Most of the previous proposals were focused on cost, force management capabilities (selective retention), equity, and civilian comparability. The most sweeping reform of the retirement system that endures to this day dates to a post-World War II commission. This was the 1948 Advisory Commission on Service Pay (also known as the Hook Commission).[25] This commission made recommendations that were implemented, shaping not only the retirement system, but the basis for the pay and allowances system that the military service still have to this day. However, not all the recommendations of the Hook Commission were implemented. One of the recommendations was to delay the payment of retired pay (the commission's goal was to minimize the cost of a retirement system, and felt that since a service member with 20 years of service could retire, typically around the age of 42, with half of his basic pay, they saw the system as very liberal). This recommendation was to extend the years of service to 30 years, unless the service member reached age 60 for officers or 50 for enlisted personnel. This recommendation was not adopted. At the same time the Hook Commission met, another commission, the Joint Army-Navy Pay Board met to discuss the issue of cost of the retirement system and recommended to keep the 20 years of service for a retirement milestone, but delay payment until age 62 (similar to civilian sector retirement plans).[26] Another 20 years passed until the next major re-examination of the military retirement system took place. In 1969, the Quadrennial Review of Military Compensation (QRMC) was established, and since then our pay system is reviewed at least every four years. The first QRMC proposed further changes to the retirement system that were not enacted. One of the proposed changes was to have a two tier

retirement payment system, with a lower amount being paid during a “second career” phase and then increased when the retiree formally left the workforce (usually around age 65). The thought process of the first QRMC was that the retirement system subsidized retirees too generously during the second career phase, when all that was needed was an additional subsidy to cover the difference between a new private sector job and the lower income at coming in the workforce at a lower level than if they entered 20 years or more previously.[27] This proposal was not enacted, but does show a continued view of how to reduce costs of the system without close regard to how it would affect service members and their trust that their service would be valued and properly reimbursed for). Since that time there have been over seven separate commissions and studies, in addition to the QRMCs, to focus on the military retirement system. Their focus was based on cost, while trying to maintain equity and force management shaping capabilities. Most of their reforms were not enacted, as they were seen politically not viable or not equitable. The High-Three retirement plan was a result of the National Defense Act of 1981. The intent of the High-Three plan was solely to reduce the cost of the retirement system.[28] In 1986, Congress passed the Military Retirement Reform Act of 1986, also known as REDUX, described previously, and amended by the National Defense Act of 2000, which gave the service members under the REDUX plan the ability to choose either REDUX or the High-Three retirement plan at their 15 year of service anniversary date.

The Defined Benefit (DB) retirement plans previously discussed had extensive historical precedence. However, over the past 50 years the nation as a whole was moving toward Defined Contribution (DC) retirement plans, primarily because they cost

corporations less to fund and maintain. According to the Center for Retirement Research at Boston College, 63% of workers with pension coverage today have a DC plan (401k plan) as their primary or only retirement plan.[29] A DC plan is a type of retirement plan in which the amount of the employer's annual contribution is specified. Individual accounts are set up for participants and benefits are based on the amounts credited to these accounts (through employer contributions and, if applicable, employee contributions) plus any investment earnings on the money in the account. Only employer contributions to the account are guaranteed, not the future benefits. In defined contribution plans, future benefits fluctuate on the basis of investment earnings. The most common type of defined contribution plan is a savings and thrift plan.[30] Under this type of plan, the employee contributes a predetermined portion of his or her earnings (usually pretax) to an individual account, all or part of which is matched by the employer. These are usually known as 401k retirement plans, whereby a contributor can begin to withdraw funds, without monetary penalty, after reaching the age of 59½ years. In the early 1980s, both Congress and the executive branches were looking at ways to reduce the retirement costs of the civil servants. In 1984, the Grace Commission was formed and generated the basis for transitioning the civilian federal workforce from a DB plan to a DC plan. This transformed the Civil Service Retirement System (CSRS) into the Federal Employee Retirement System (FERS) in 1986, and set a cut-off date between the DB and DC plans (the DB plan being more advantageous for a full term civilian employee, and the DC plan more advantageous for a short term employee that may move careers to the private sector).[31] The DC plan became known as the Thrift Savings Plan (TSP, a 401k type plan) that deferred taxed earnings until

retirement age. This change opened the possibly of expanding this to the military.[32] In 2001, legislation authorized the military service members to participate in the TSP; not as a retirement program but as a savings plan to help entice service members to save for their future. At this time I was a Major, stationed at Fort Sill, Oklahoma as the 215th Finance Battalion Executive Officer and Defense Military Pay Office Chief. Our Finance Group (Brigade) Commander stated that when we briefed this new program (TSP) to senior commanders to ensure we briefed it as a savings and not a retirement program, because he felt that over time personnel would misperceive the military TSP as another retirement program[33]...and it appears his premonition has come true today, although 10 years later.

As recent as 2011, there have been significant studies conducted to view the viability of transitioning the military uniformed service onto a DC retirement plan, most likely adopt the TSP program fully and mirror what the FERS civilian employees have for a retirement plan.[34] The positive for going to a 401k type plan, is that it costs significantly less than a DB plan. Therefore you can significantly lower the vesting time to allow participation/benefit from the plan immediately or upon a pre-set vesting period (e.g. after five years of service). One of the criticisms of the current military retirement program is that it is not fair to all service members, in that you must serve at least 20 years (vesting) to get the retirement benefit (a small percentage).[35] The TSP would allow the service member to transfer it to another 401k type plan immediately upon completion of service (e.g. after a vesting period of 5 years the service member departs and starts a new career in the private sector, they get the benefit of transferring their TSP balance into their new employers 401k program and continue to accrue a

retirement savings). The downside to this is that funds in the TSP would be subject to 401(k) like accessibility rules, resulting in most cases that service members would be penalized for withdrawing money if needed before age 59½, and those serving the longest in the military would receive significantly less lifetime retirement income versus the current DB plans. Under this proposal, the federal government shifts the financial risk to the service member.[36] The pressure to reduce the costs of the military retirement system has reached a new level of urgency, given the current state of the national debt and the pending defense spending cuts over the next 10 years. Currently, military personnel costs, which includes salaries, pensions, and health care benefits accounts for about 34% of the Department of Defense annual base budget.[37]

To address the growing concerns about the cost of the military retirement system, the Defense Business Board (DBB) was convened in 2010-11 to study the current system and generate a proposal to reduce costs, maintain equity, and enable the services the flexibility of force shaping tools. The board found that the costs of the military retirement system are “rising at an alarming rate”,[38] and that “steps must be taken to contain these spiraling costs or they will undermine future war fighting capabilities.”[39] It recommended a transition from a DB plan to a mandatory defined contribution plan, based on the Thrift Savings Plan, which could save $900 billion to $1.5 trillion over the next 25 years.[40] Some other factors highlighted by the DBB were that the military retirement program has not changed significantly over the past 100 years, although the force has transitioned to an all-volunteer force, life spans longer, military pay more competitive with the civilian sector, and many military retirees pursuing second careers. The DBB also stated the current retirement system was

unfair because 83 percent of all service members serve fewer than 20 years and therefore receive no retirement benefit at all, and that the current DB plan is more generous and costly than private sector benefits.[41] The DBB further stated that the current DB program costs are rising significantly, making it unaffordable to maintain. Future long term projections has the current system liable for $2.7 trillion by Fiscal Year 2034 and could be liable for almost $12 trillion by FY 2076, assuming no major changes to the force structure. The DBB recommends adopting the TSP program in place of the current DB system, with a few caveats to include doubling federal contributions to the plan when a service member is in a combat zone or other hardship service criteria. The DBB recommended the plan to vest after three to five years of service, and payable at age 60 to 65 or the Social Security age, if that were to increase. The DBB estimates that if all current active duty personnel remain on the current plan and all new recruits participate in the revised plan, the retirement trust fund would only be liable for $1.8 trillion by FY 2034, saving $900 billion over 25 years. If all current military personnel immediately transitioned to the new system without losing any accrued benefits, the retirement trust fund would only be liable for $1.2 trillion by FY 2034, saving $1.5 trillion over 25 years.[42] The DBB did not address what to do with recoupment of REDUX Career Status Bonus payments nor how to build up instant equity for current active duty service members for their past service (e.g. someone with over 24 years active federal service now). Ranking members within congress are favorable to having the military retirement system reviewed. Both Senators Carl Levin and John McCain, within the Senate Armed Services Committee, have recently made statements, as of October 2011, that support a commission to look at all aspects of military compensation,

including the current system of basic pay, allowances, special and incentive pays, and health care, as well as the tax treatment of the various components of military pay, in addition to retirement benefit plans.[43]

In the past, very little changed in respect to the military retirement program, as proposed reforms were proposed by either the services or the executive branch and not by congress. With the current pressure on the national deficit reduction and pending large future cuts in the defense program, congress appears to be favorable for a major review, at the request of the Department of Defense, of the military retirement system, and may be more likely now, than ever, to pass sweeping legislative reform of the system. This is our government's prerogative, provided they do not break trust with the public and the select few citizens that serve their nation in the military service.

Trust is a precarious thing – it takes time to build up and can be lost in an instant. Before the Department of Defense requests to make a sweeping transition from a Defined Benefit retirement plan to a Defined Contribution retirement plan, significant analytical and sociological dedicated research beyond the costs must be completed of the force and the nation's citizens that fill our military ranks. There are other significant elements that can easily erode the trust of the force and cause havoc on retainablity and recruitment of an all-volunteer force, therefore directly, negatively, affecting readiness. A TSP or 401(k) plan can easily have its value significantly reduced if the underlying investments falter, as seen in the past several years over numerous media reports on employee retirement savings plans being nearly wiped out and in other instances individuals having to try to re-enter the workforce out of retirement because their 401(k) accounts were wiped out. Some workers have thrived under this more

individualized approach, but for many, the 401(k) revolution has fallen short of its potential.[44] According to the Prudential Investments Corporation, on average, Americans struggle to meet retirement savings goals, and that "one in two workers reports being behind schedule in their retirement savings goals."[45] This type of scenario could weigh heavily on service members' thoughts, especially, if forward deployed in a combat zone, separated from their Family, and nearing the expected end of their military career. Additionally, many military occupational specialties do not easily equate or transfer to the private sector. Many departing service members have to go through an extensive retraining and re-education process to viable when trying to enter the civilian workforce. To compound this problem, many retirement eligible service members trying to enter the workforce are competing with others that already have extensive background and years of experience in the private sector, with the military member bringing leadership experience, but in most cases, little technical experience (e.g. an Infantry Officer with 20 years experience trying to enter the workforce in the Financial sector only to compete with others that have 20 years experience in the stock market and other related industries). Given the high unemployment rate of today, the competition is more fierce. Without a guaranteed pension immediately payable upon retirement, that 20 year veteran infantry officer may be in dire financial straits if he did not save significantly in his own program on the side, or have to take significant penalties to try an withdraw money early from the TSP just to survive until employment can be found. Past studies with respect to the military retirement system have not focused on the psychological or sociological aspects of military service and the trust that has been developed over time, that given the arduous and extreme sacrifices that

military service necessitates, service members have placed their trust in the guarantee that their service will be recognized monetarily and the extreme transition from military service to the civilian sector many decades on will be tampered down by a underlying monetary provision or security blanket to fall back on if needed. Without this trust in place, and no specific research or surveys completed on how service members and potential service members would view a dramatic change in the retirement program would affect their desire for continued service and career plans. On average, most service members that are in the military over 10 years tend to want to stay on until 20 years as they have invested so much time already into a military career it makes good economic sense to at least continue until past the 20 year vesting mark. If we transition to a DC plan, then what is the enticement to keep the service member from jumping ship and transitioning to the private sector after only 12 years of service, taking valuable leadership experience with them that cannot be replaced overnight (technically need another 12 years to grow and individual to replace them in their skill set)? If the economy were to boom again as it did in the 1990's the government would be hard pressed to attempt to offer bonuses or other short term retention tools to keep service members on board, as the private sector compensation can easily outstrip that in the public sector, especially at the executive levels. Many service members enter into service single, but quickly get married and expand to have a family. Their initial expectations and decisions are dramatically changed and tempered when they become a primary provider for a Family unit. This will significantly factor into their calculus in what career path to follow. If the deployment OPTEMPO of the past 10 years is any indication of the OPTEMPO of the future, given known pending uniformed service

member force cuts now, and the actual retirement benefit is reduced without a large or significant shift in other elements in the compensation system then I postulate the military will have a challenge retaining talented leaders beyond their initial service commitments. This will be further supported by the portability of a DC retirement plan, whereby many Americans transit from one job to another in the course of their careers without impacting their retirement nest-egg.

There is very good reason why the retirement program for the United States military service members has endured over time – and that is wisdom of leaders understanding the magnitude of its affects. This magnitude can only be evaluated and understood by applying a life course approach to analyzing why citizens decide to join the military, and what drives their decisions to continue on and make a career of the profession of arms. Only approaching this thought process through the close evaluation of current junior service members and future prospects (e.g. junior and high school aged students from targeted demographics) can we get at the root cause(s) of why a choice is made to serve in the military and predict how future behavioral choices can be addressed if there were changes to the retirement system. Simply adjusting the military retirement program to a contribution based system for the sake of saving money from the federal budget may be effective in the short term, and viewed as similar to how private industry compensates workers, but as stated earlier, the profession of arms is unique, often times calling on severe sacrifice of its membership. There are very few professions that come close to this (e.g. police officers), and none in time of continuous combat operations. Therefore a simple change of the retirement program to the TSP without due diligence (e.g. life course analysis) will adversely impact future readiness.

A simply way to look at this is a decision to serve by a newly commissioned officer (e.g. United States Army Second Lieutenant). He may have a four year active duty service obligation to provide to the Army as repayment for a four year Reserve Officer Training Corps (ROTC) scholarship after commissioning. This young officer contributes to the TSP and completes his four year commitment, but by this time he is most likely promoted to the rank of Captain and possible assignment as a Company Commander. If that officer is given the option to transition from the military into an affluent civilian position, what is to keep him in the military? Since the current TSP provides less retirement income than the current DB plan and the service member can simply transfer his TSP into any employers' 401k plan, the benefit to stay beyond an initial commitment is significantly minimized. If there are no other incentives or programs added in addition to the TSP, I postulate that we will see a future erosion of talent from the military never seen since the drawdowns that are associated after major conflicts (e.g. post World War II drawdown). Citizens will continue to want to serve their nation initially, however, retention of the best and brightest will become a challenge, unless a holistic (e.g. life course) approach is used to evaluate current and future behavior, what drives the decisions of service members to make the military their career, and most importantly, forecast what (e.g. other monetary and tangible incentives) can be applied to ensure a future capable, and ready force.

In summary, the military retirement system of today has proven it resiliency over time. It has served our nation well in providing a foundation for a flexible force management tool, ensuring the viability of the force, and built up the trust of the public and its citizens for the support of an all-volunteer force, that would take care of its own.

A transition to a defined contribution plan would be a fundament shift, and will have dramatic impacts on the force management ability of the military, and require significant offsets, which would only add to the personnel costs again, to ensure the right personnel in the right numbers were maintained in support of future military readiness. Simply making cost decisions for the military retirement program will test the trust of the nation's citizens, and likely color their opinion on continued military service. The military does need to address rising personnel costs and how to combat them, however, a life course (e.g. holistic) approach must be followed, to include why service members choose to serve and make a career out of the military, and if their sacrifices end up being reimbursed at the same rate as their peers that do not serve, and do not sacrifice, then the decision to serve voluntarily may be at risk.

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